

# Gender Matters

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## WORKING WITHOUT A NET: Women and the Asian Financial Crisis

The Asian financial crisis that swept across South and Southeast Asia with the destructive force of a typhoon exposed dangerous weaknesses in the global trade economy.

The crisis showed just how little is required to trigger a financial panic and how quickly a panic can become an economic crisis.

When businesses in such disparate places as Russia and Brazil felt the crisis-related squeeze in credit, we learned how a financial panic can spread like a contagion.

More important, the inability of governments in the affected countries to contain the crisis and the slow and uncertain international response reveal just how poorly prepared is the global trade system for dealing with this sort of event.

From a development perspective, however, the Asian financial crisis has special meaning. The World Bank once described Asia as "the paragon of poverty reduction" and referred to Asian countries as "models of human development for others to emulate" because they had managed to reduce poverty "at a pace that is almost certainly unprecedented in human history." Asia appeared as proof that a rigorously laissez-faire model of development was as good as gold.

*An ethnic Chinese shopkeeper stands amid the charred remains of her shop and home, destroyed in February 1997 by looters in riot-torn Pamanukan, Indonesia.*

That model was only one casualty of the Asian financial crisis, and among the important lessons to be learned is the need for sound social policies that can help workers and families endure the effects of economic downturns. As the crisis was reaching its worst, World Bank assessments warned that the economic fallout could wipe out all the progress against poverty these countries had achieved during the past 25 years. This prediction was too pessimistic; the increase in poverty was less drastic than predicted. But the crisis imposed significant costs nonetheless.

These costs were concentrated in Thailand, Indonesia, the Republic of Korea, and, to lesser extents, Malaysia and the Philippines. These countries represent dramatically different developmental circumstances, and although the evidence suggests that women and girls suffered disproportionately in these countries, few escaped the effects of the economic shock wave. Nor were the costs confined to the Western Pacific. According to the International Monetary Fund, worldwide economic growth in 1998 and 1999 was cut in half by the crisis.

Future panics can be prevented or contained by improvements in financial market regulatory mechanisms. But social safety net policies will be needed to ensure that workers and families can deal with future economic downturns. If these safety net policies are to be effective, they will have to reflect the social and economic conditions of women in these societies.

## Women, Work, and the Financial Crisis

The Republic of Korea is by far the most heavily industrialized of the affected countries. Labor markets were tight in the Republic of Korea before the crisis, with unemployment at a low 2 percent

in 1995 and 1996. Then came the panic. Between April 1997 and April 1998, overall employment shrank 5.1 percent. Women workers suffered the worst of the crisis-induced job losses; employment fell 3.8 percent for men but 7.1 percent for women.

Younger workers suffered the greatest share of job losses, and younger women suffered more than younger men. Employment rates in the 15- to 19-year-old age bracket fell 8.7 percent for men, but 20.2 percent for women. Unexpectedly, job loss rates for the 20- to 29-year-old age cohort were roughly equal: 13.3 percent for men and 13.7 percent for women.

Older women also bore a disproportionate share of the job losses. Men between 50 and 59 saw employment rates fall 5.5 percent; for women the same age, employment shrank by 6.6 percent. Employment of men 60 years and older fell negligibly by 0.8 percent, but employment of older women declined 7.5 percent.

As jobs became harder to find, both men and women fell out of the labor force. Again, the effect was more pronounced for women. Between spring 1997 and 1998, the participation rate for men in the labor force fell by 0.5 percent. For women, the decline was 2.8 percent.

Thailand's economy also was running at full employment in the mid-1990s and had become a magnet for workers from other Asian countries. The panic that was to become the Asian financial crisis broke out first in Thailand in summer 1997. Unemployment soared as real estate and banking sectors collapsed, followed by layoffs in manufacturing and services. By February 1998, almost 9 percent of the Thai workforce was unemployed.

According to Thai government figures, 54,000 workers were laid off between January 1997 and February 1998. Slightly more than half were women. But these figures account only for the

minority of the workforce covered by employer-provided severance benefits and greatly understate the number of layoffs that actually occurred.

Thailand's Social Security Office estimates that 165,000 workers lost their jobs in 1997. Trade associations put the number of worker layoffs at more than 420,000.

Thailand's Social Security program is funded through employers' payroll-based contributions, so employers have a strong incentive to report layoffs. The International Labour Organization, however, estimates that as many as one-quarter of participating employers are delinquent in their payroll contributions, so these layoff reports are suspected of significantly understating actual job losses.

According to one survey, 60 percent of the workers who lost jobs in Thailand were women over 30 years of age, one-quarter of whom had been textile and garment workers.

Unlike in Thailand and the Republic of Korea, employment growth in Indonesia had failed to keep pace with the growth of its labor force for some years prior to the economic crisis. With unemployment at 5 percent on the eve of the crisis, nearly 40 percent of all workers were "under-employed" at short, 35-hour work-weeks. More than half of all working women fell into this category, compared with one-third of all employed men. The crisis doubled unemployment rates between 1997 and 1998, and although women made up just over one-third of the labor force, they made up more than 46 percent of Indonesia's unemployed.

During 1998, the garment and textile sector alone was responsible for "retrenching" 240,000 women from paying jobs.

The Indonesian experience has been captured in a series of longitudinal studies conducted by the RAND Corporation at the request of the

## Social Insurance Systems: When Gender Matters and When It Doesn't

Weaving gender into a country's social safety net isn't a simple task: there are times when gender must matter and times when it should not.

Industrialized countries have established social insurance systems that blend private and public sector programs to protect workers and their dependents if the family breadwinner is no longer capable of earning a living. These include programs that provide benefits in the event of disability, job-related injuries, unemployment, old age, or death.

Developing countries have devised social insurance systems modeled largely on those of industrial economies, but these programs usually cover only workers with formal sector employment.

This excludes from coverage most agricultural employment, occasional or part-time employment, domestic service, and informal sector employment—sectors in which women workers often predominate. The International Labour Organization considers this exclusion to be a form of indirect discrimination against women workers.

A second form of *de facto* discrimination arises when social insurance programs are financed by participating workers' payroll contributions and when benefits are determined by a worker's employment and earnings history. Because women frequently interrupt their employment because of childbirth or the need to care for family dependents, they may either have their benefits reduced to reflect their absences from the workforce or lose eligibility for long-term benefits altogether.

Because lower paying jobs generate lower benefit payments in payroll-dependent insurance plans, indirect gender discrimination is aggravated by the persistent differential in women's earnings compared with those of male counterparts.

The International Labour Organization also identifies features of many social insurance systems that directly discriminate against women. Contributions and benefits associated with employment-based programs are often computed using

actuarial calculations made separately for men and women. These calculations may reflect different life expectancy rates, risks of injury, or health care requirements. As a result, women workers are required to contribute more of their earnings to these programs and receive less in benefits than do their male counterparts. Social insurance systems, the International Labour Organization argues, ought to pool these risks evenly among all participants. Contribution and benefit schedules are examples of instances in which gender should not matter when designing social insurance systems.

Direct discrimination also occurs when women workers who are married are denied benefits because programs presume their needs will be met through the incomes (or benefits) earned by their husbands. In these cases, married women cannot acquire personal rights to program benefits. This problem can arise even if the married woman is the sole source of support for a dependent family whether a husband is present or not.

The social insurance systems established by the heavily industrialized economies were built around the concept of women as dependent spouses in legally bound marriages, whose earnings from economic activity would be supplementary family incomes. This concept no longer fits economic reality, if it ever did, as women increasingly take formal sector employment and acquire independent rights to unemployment insurance, pension, and health care benefits.

As developing nations look to existing models for guidance in devising safety nets to protect workers and families from economic reversals, reliance on payroll-based programs should be tempered with a recognition that these systems usually provide women fewer benefits and require greater contributions.



Indonesian government and a consortium of donor organizations, including the United States Agency for International Development. Between August and December 1993, researchers first interviewed members of 7,200 Indonesian families to determine family experiences and perceptions concerning employment, education, health care, and community involvement. Follow-up surveys conducted in late 1997, just before the crisis hit the archipelago, interviewed 94 percent of the original families.

In mid-1998, one-fourth of the same families were again interviewed to ascertain the effect the crisis had on household behavior. This survey's findings do not provide conclusions representative of the general population but do offer keen insights into the dynamics of family adjustments to the crisis.

According to RAND researchers, before the crisis, just over 49 percent of Indonesian women were working. By August 1998, this number had

increased to more than 56 percent. But this increase was entirely the result of women working as unpaid labor in family-run enterprises. The fraction of women surveyed working at paid employment increased by a statistically insignificant 1 percent, from 36 percent to 37 percent.

Before the crisis, Indonesians had been migrating from rural settlements and remote islands to the country's major cities. The crisis reversed this tide as jobless workers returned to their villages and farms. A labor surplus accumulated in the countryside, the first consequence of which was a spiraling decline in real wage rates. Soon, those with jobs had to work longer hours to make ends meet. Men worked more hours per week at paid employment than did women (34.7 hours for men, 31.6 hours for women), but women increased their work effort by 2.7 hours a week, more than the increase for male workers.

Labor markets can make a variety of adjustments to a decline in demand

for paid labor: workers can be laid off, hours can be cut back, or wages can fall. Indonesian workers found themselves straddling an ever-widening chasm of shrinking incomes and rising prices. Regional droughts had already cut deeply into crop production, especially rice, pushing food prices ever higher. The crisis forced cutbacks in government subsidies for milk and rice, while exchange rate depreciation increased the price of imported food. Together, these factors accelerated inflation in food prices. In addition, employers "bid down" the wages of paid labor. RAND found that real wages fell between 20 and 30 percent in 1998. The declines were largest for men in the urban sector, smallest for rural women. Overall, RAND concluded that "apparently, the lion's share of the labor market adjustment to the crisis has not been in terms of hours and employment but in terms of real wages."

Taking family location and size into account, RAND found that families with young women (ages 15 to 24) were less likely to sink into poverty and more likely to rise out of poverty than were other families. These women entered the labor market to help maintain family incomes, often replacing older women who were laid off. The fraction of younger women working at paid employment increased significantly over the year; however, the fraction of women as a group remained statistically unchanged.

**Social Insurance Coverage by Type and Country, 1997**

Country	Unemployment Insurance	Severance Pay (months of salary)	Social Security Coverage/Total Employment (%)
Republic of Korea	Yes	n.a.	38
Indonesia	No	4	12
Thailand	No	6	16
Malaysia	No	n.a.	48
Philippines	No	3	24
Hong Kong, China	No	2	n.a.
Singapore	No	0	80

Source: U.S. Government, Social Security Programmes Throughout the World, 1997, on Web site: <http://www.ssa.gov/statistics/ssptw97.html> (as presented in *The Asian Financial Crisis, The Challenge for Social Policy*. Eddy Lee, The International Labour Office, Geneva, 1998, page 52).

## The Asian Model of Development

Throughout the region, women workers bore a disproportionate share of the labor market adjustments triggered by the crisis, but no social or economic group was untouched by the press of rising prices, falling wages, widespread unemployment, and the expanding wave of business failures.

The result was a reversal in the region-wide, decades-long trend of declining poverty. National governments were ill prepared to cope with this problem.

Cultural and historical differences aside, these countries have followed similar development paths. Governments invest heavily in basic health care and education to improve the quality of the labor force. Private sectors are largely unfettered by intrusive public regulation and unencumbered by union activism. Labor-intensive manufacturing for export has led the way to higher incomes and dramatic reductions in poverty.

Thailand's economy, for example, averaged between 7 and 9 percent growth every year between 1975 and 1995. Indonesia's growth rates averaged between 6 and 8 percent during these two decades.

The Republic of Korea's growth averaged 7 percent, 9.6 percent, and 7.8 percent for these periods, while that of Malaysia averaged 7.1 percent, 5.4 percent, and 8.8 percent.

The Philippines brought up the rear, with annual growth rates averaging 3.15 percent over the 21-year period.

Given sustained economic growth at these rates, formal, public sector social safety nets may have seemed unnecessary. More to the point, proponents of pure free market economics often argue that policies mandating minimum wage laws, protecting union organizing efforts, enforcing collective bargaining through arbitration, and providing income support to the unemployed actually undermine economic growth by removing incentives for hard work and high personal savings.

The laissez-faire model seemed to work. Per capita annual incomes in Malaysia and the Republic of Korea rose to more than \$10,000. Thailand followed at just under \$10,000. The Philippines and Indonesia, two of the poorer countries,

lagged far behind with average incomes of just over \$3,000, but even this comparatively lower income produced astounding gains against poverty: 64 percent of all Indonesians were poor by international standards in 1975; fewer than 11 percent in 1995.

Using the standard measure of US\$1 per day, 60 percent of all East Asians lived in poverty in 1975. By 1995, the poverty rate had dropped to 20 percent. Where once 720 million people eked out a living on a daily allowance of US\$1, fewer than half that number were poor in 1995. And the gains against poverty were accelerating. The number of poor people fell by 27 percent between 1975 and 1985. During the next decade, it shrank by 34 percent.

So long as their economies continued growing, national incomes continued rising, and poverty continued falling, governments deferred national programs to protect workers against the hardships of economic declines.

But when skittish international investors began dumping their Asian holdings, financial panic turned quickly into bankruptcy and massive unemployment. When currency devaluation pushed import prices skyward, soaring inflation squeezed all nonessential items out of family budgets. National governments were unable to stabilize the economic free-fall or cushion the shocks to workers and families.

Thailand's economy shrank by 3 percent in 1998 and Indonesia's by as much as 5 percent. The Republic of Korea had "negative growth," as economists put it, of 1.2 percent.

The World Bank has run simulations that assume the economies of crisis-affected countries would continue to contract so that gross domestic products are 10 percent less in 2000 than in 1997. Assuming no changes in the distribution of income, the ranks of the poor will swell by millions. World

## RESPONDING TO THE CRISIS

Economic crisis leads to widespread unemployment and under-employment, and in the wake of these labor market adjustments came an increase in poverty.

These countries had few policy tools available to combat poverty directly. The Asian model of development in fact eschewed government programs directed to help workers or families escape poverty, other than to provide general support for health and education.

Bank simulations for Indonesia suggest the number of poor would double, while for Thailand the figure would increase by 40 percent; the Philippines would experience a 50 percent increase in poverty, and Malaysia would see the number of poor people increase by just under one-third.

The World Bank's worst case projections suggested that most if not all of the gains against poverty these countries achieved over the past 25 years could be lost in a few short months. It now looks like recovery will be faster and stronger than expected and that worst case scenarios will not materialize. But much damage has been done.

## Structural Adjustment or Social Insurance?

Most countries in the region mandate social insurance to provide support for the aged and disabled, and medical insurance and workers' compensation for job-related injuries. These programs,

however, typically provide such limited benefits as to be insignificant to eligible individuals, and even the most expansive programs typically cover only a portion of the workforce.

The most important income security protections are employer-provided “provident funds.” Indonesia, for example, requires firms with 10 or more employees (or firms with payrolls greater than a mandated ceiling) to contribute 3.7 percent of their payroll to provident funds for employees, who also contribute 2 percent of their earnings. The accounts provide lump sum benefits for pensioners over 55 with five and a half years of contributions or to younger workers who are completely disabled.

Thailand just enacted a similar system, but the government covers half of the employer’s contribution. In 1998, workers became eligible for coverage for the first time.

The Republic of Korea has the most expansive social insurance coverage: workers in firms with five or more employees and agricultural workers ages 18 to 59 are automatically enrolled in old age and disability benefits. Coverage is financed by a 6 percent employer contribution, while workers contribute 3 percent of their earnings. The self-employed and workers at firms with fewer than five employees can elect to enroll, but they must make the full 9 percent contribution out of their own earnings.

The Republic of Korea is the only affected country that offers unemployment insurance, and its program covers only 22 percent of the labor force and provides only a few months of benefits at a fraction of workers’ earnings. The Republic of Korea is also unique among affected countries in providing limited welfare services to low-income individuals and families. But these benefits, like the country’s unemployment insurance, extend scant support to a small portion of those in need and cannot protect large segments of the

workforce or society from the effect of sudden economic contractions.

These programs were never intended to relieve the widespread hardships inflicted by an economic crisis. Throughout the region, governments attempted to respond with temporary job creation initiatives.

These initiatives, however, failed to reflect the different circumstances of women and men in the labor force. The Indonesian government, for example, has maintained an infrastructure development program for years, targeting both remote villages and urban ghettos. In 1998, the national government initiated a 33 billion rupiahs (Rp.) program of emergency, labor-intensive infrastructure improvements employing the equivalent of 54,000 workers for 80 days. For 1998 and 1999, the government allocated Rp. 600 billion for rural and urban infrastructure development and another Rp. 500 billion for labor-intensive forestry, creating roughly 103 million work-days of employment.

Because women make up only a small fraction of the construction and forestry workforces, these programs are unlikely to offer much relief to women workers.

Thailand’s national government initially responded to the onset of the crisis by increasing public expenditures across the board by 18 to 19 percent in 1997. But 1998 brought an inflation-adjusted budget reduction of some 12 percent. The Ministry of Agriculture and Agricultural Cooperatives’ budget shrank 16 percent, while the Ministry of Interior’s was cut 20 percent. Health and education budgets were trimmed by 6 percent.

The Asian Development Bank extended loans to help cover Thailand’s balance-of-payments shortfall, while the World Bank provided a US\$430 million loan in 1998. Of this, US\$250 million supported the budgets of existing health, education, and environmental protection projects, while the remain-

ing US\$180 million went to capitalize a Social Investment Fund, financing community development projects that might employ as many as 100,000 workers.

Neither these nor the much more European-style employment and training programs that the Republic of Korea operates take heed of the situation of women in the workforce or of women heads of households.

## Weaving Gender into the Social Safety Net

The Asian model of development rested on the assumption that export-led employment of a well-educated, flexible labor force could eliminate poverty and ensure employment security. This laissez-faire approach may have been responsible for the most dramatic reduction in poverty in history, but it also left these countries particularly vulnerable. An acute economic contraction, brought on by the shaken confidence of overseas investors, was enough to undo much of the progress achieved over decades of development.

Women in these countries, as elsewhere, continue to confront social barriers that crowd them into some industries, foreclose entry into others, and generally push them onto the margins of economic life. Women are the last hired, the first fired, and the least likely to qualify for benefits offered by their employers or provided by their governments.

When the Asian economies nose-dived, their own safety nets were insufficient to meet the needs of the 5 million workers thrown out of their jobs or the countless families thrown into poverty. Governments launched emergency efforts, most often funded by donor organizations to provide urgently needed financial support, but these programs were not designed to reflect the gender realities of the

countries' labor markets or social structures. And so the disproportional burden imposed by the sudden collapse of these export-led economies has not been matched with proportional benefits from relief efforts.

According to the chief policy analyst at the International Labour Organization, an unemployment insurance program providing 12 months of benefits for all covered workers would cost as little as 0.04 percent of payroll. If Thailand, Indonesia, and the Republic of Korea had instituted such a program in 1991, they would not have been immune from financial panics or economic bubbles that burst unexpectedly. But a panic would more readily have been contained and the effects more limited, and the economic and social costs would have been far less exacting.

So even as simple a device as unemployment insurance programs could have greatly reduced the social impact of the economic crisis. And because protecting family incomes helps keep the economy moving, these investments reduce the length and severity of sustained business downturns. But if social insurance programs are to protect all workers and enterprises from the worst effects of inevitable economic crises, they will need to be guided by a clear understanding of the roles and responsibilities of women.

Most social insurance programs are employment based. Women employed in the informal sector, agriculture, or in small, family-run enterprises are usually excluded from unemployment insurance, workers' compensation, and medical or maternity coverage.

Retirement income security, including both private pensions and public programs, is frequently based on workers' pre-retirement earnings or their continuous years of employment. Women's incomes are typically lower than men's, and their working lives are frequently interrupted by family responsibilities.

## The IMF Response

Diagnosing the crisis remains difficult for analysts. Prescriptions for treating the situation were equally problematic. The International Monetary Fund (IMF) played a critical role in responding to the crisis. Its initial response—traditional austerity regimens—has prompted well-deserved criticism, but its response evolved as the crisis deepened, and eventually the IMF pressed for safety net policies to contain the social costs of the economic collapse.

Countries having difficulties paying international debts frequently turn to the IMF as a "lender of last resort." In exchange for agreeing to the IMF's demands—usually requiring countries to bring their national budgets into balance—debtor countries receive new loans with which to meet obligations to other creditors. Often these countries' debts arise from subsidizing inefficient state-owned industries or consumer goods, such as food and fuel, as well as education and medical services.

The IMF's conditions typically call for structural adjustment programs that require debtor countries to privatize state-owned enterprises, cut social spending, and increase domestic interest rates to attract new private capital, with the aim of improving productivity and increasing growth rates.

When the Asian financial crisis erupted, the IMF agreed to provide new credit to the affected countries if they adopted structural adjustment programs. Among the IMF's initial requirements was the demand that Thailand, Indonesia, and the Republic of Korea tighten their national budgets and achieve budget surpluses equal to 1 percent of gross domestic product (GDP).

These demands had the perverse effect of aggravating the crisis while preventing the affected governments from emergency spending on anti-poverty social services and income supports. The IMF recognized this mistake and reversed its policy. New agreements provided for deficit spending of 3 percent of GDP for Thailand, 4 percent of GDP for the Republic of Korea, and 8.5 percent for Indonesia.

Much of this deficit spending was channeled to social expenditures, with priorities reflecting each country's particular hardship. Indonesia suffered most from skyrocketing prices of imports, especially food, so roughly three-quarters of its deficit spending restored subsidies for essential foodstuffs. Unemployment was the principal issue confronting Thailand and the Republic of Korea, and these countries allocated social spending to job creation.

Along with setting targets for fiscal policy, the IMF required changes affecting business practices throughout the region, including bankruptcy laws, corporate governance, and banking regulations. Among the reforms the IMF encouraged was an expansion of the Republic of Korea's unemployment insurance program, the only such program in the region. Established in 1995, in January 1998 the program covered only 18,000 of 900,000 unemployed workers. The program will soon cover almost all of Korea's industrial workforce.





The crisis shows every sign of abating, and most forecasters are projecting modest growth for the coming year. New regulatory systems have been put into place that should protect against future panics and provide stability to stock markets and banking systems. But future recessions are inevitable. The economic damage these inflict and the human hardship these impose can be minimized but not eliminated. Policies can help protect workers' incomes and family financial security. However, if these policies are to protect workers and families from economic downturns, they will need to reflect basic social realities like the disparate roles women and men occupy in the workforce.

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